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The Italian Telecommunications Industry

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Summary

The largely government-owned telecommunications industry in Italy is reorganizing to improve its competitiveness. A major feature of the plan is encouragement of joint ventures between foreign and Italian firms that give Italian companies access to new markets and more advanced technology. But because Italy's industry is smaller and less advanced than those of other European countries, Rome is reluctant to open its domestic telecommunications market to foreign competition. The market is well protected: at present, less than 13 percent of Italy's telecommunication needs are imported. Although Rome believes a more open EC market would aid Italian competitiveness, it does not want wholesale deregulation that would let in US and Japanese competition.

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This memorandum was prepared for George Debakey, Deputy Assistant Secretary of Commerce for Science and Engineering, by _____ Office of European Analysis. Questions and comments are welcome and may be addressed to _____ Chief, West European Division, _____

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State of the Industry

Italy's telecommunications industry lags behind those of other industrialized nations primarily because of bureaucratic mismanagement dating from the 1970s. The Ministry of Posts and Telecommunications (PTT), for example, refused to allow telephone charges to rise with inflation, thus hampering the efforts of the state-owned telephone monopoly (SIP) to expand its services and invest in new equipment. In addition, overlapping ministerial jurisdictions resulted in uncoordinated and ill-timed research and investment programs. [REDACTED]

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The government began to correct its approach in 1981 by taking steps to revitalize the industry.

--SIP has been allowed to raise its rates periodically, using the added revenues quickly to upgrade its existing network and introduce a new range of data transmission services.

--PTT has proposed streamlining the public telecommunications sector to transfer much of the decisionmaking power from the various ministries to the companies directly involved. A law implementing these proposals may be passed this summer.

--Italtel, Italy's state-owned equipment manufacturer, has revamped itself and joined a consortium with another Italian firm, Telettra, and with GTE to develop a second-generation digital exchange system that is now being installed across the country.

Increased equipment orders from SIP, along with aggressive management efforts to modernize production methods and reduce redundant labor have improved Italtel's profitability considerably. [REDACTED]

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Although these efforts have helped revitalize the Italian telecommunications industry, it nonetheless remains small compared to industries in other West European countries, the United States, and Japan. Domestic production in 1984 was valued at \$2.3 billion dollars -- about half the volume of the French and German industries. Since 1981, the government has rapidly increased outlays for new equipment -- amounting to \$1.8 billion in 1984-1985 alone -- but these investments remain much smaller than those in the other West European countries. Italtel furnishes half of the telephone sets and public switching

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[redacted]

transmission equipment in Italy. Telettra and subsidiaries of three foreign firms -- Ericsson, GTE, and ITT -- account for most of the remaining sales. [redacted]

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As a marginal world producer of telecommunications equipment and services, the Italian industry is best equipped to meet the needs of small- and medium-sized users rather than the larger customers in other advanced nations. Only 15 percent of the industry's total output was exported in 1984 -- most of it to Latin America, the Middle East, and North Africa -- and transmission equipment accounted for 65 percent of those exports. Telettra is the biggest exporter, sending 46 percent of its output overseas. The Italtel/Telettra/GTE group, which is guaranteed 65 percent of the domestic market for systems and equipment, operates overseas under the name Italcum but currently exports only 6 percent of its production. The group plans to increase its exports to 25 percent by 1990 through joint ventures with foreign firms. [redacted]

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Future Prospects Bright

The Italians probably can count on further expansion of the domestic market as a result of SIP's efforts to provide new and better services and modernize a telecommunication system in which many exchanges still are electromechanical rather than electronic. Rome has planned one of the fastest rates of conversion to digital switching of any country in the world, and the US Commerce Department estimates that the Italian telecommunications industry will grow by 8 percent annually for the next five years. New services will also boost the demand for equipment. A new packet switching network for data transmission, Italtel, is likely to be completed this year, creating further opportunities for value-added networks for both domestic and foreign firms. By 1990, Rome plans to have available its new Integrated Services Digital Network that would provide services such as telex data networks, teletex, electronic mail, and closed-user group facilities. Other services in the experimental stage include video conferencing, telemedicine, and facsimile transmission. [redacted]

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In addition, the reform bill wending its way through parliament would reduce red tape by limiting PTT's role in the telecommunications industry. The bill would reduce PTT's authority over day-to-day organization and management, placing SIP in charge of domestic services and giving Italcum control over international services. Although PTT still would be involved in policy planning and supervision, the reform would

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reduce the cumbersome bureaucracy and create a more concentrated and efficient telecommunications system. [REDACTED]

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As in other industrial sectors, Rome is aggressively encouraging Italian telecommunications companies to participate in joint ventures with foreign firms in order to gain access to new markets and acquire new technologies. The government regards as successful both Italtel's association with GTE and previous Italian ventures with other US companies. For example, Rome welcomed AT&T's acquisition of 25 percent of Olivetti in 1983 in part because the purchase improved the latter's ability to export to the huge US market. Italian companies also are vigorously pursuing increased cooperation with major West European firms; agreements have been signed recently with CIT-Alcatel (France), Siemens (West Germany), and Plessey (UK) to develop jointly a fully integrated digital switching system for international calls. [REDACTED]

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Trade Barriers and Attitudes Toward Deregulation

Rome appears convinced that the Italian market is too small to allow deregulation of its telecommunications network, and we believe the government is not likely to agree to dismantle its state-controlled monopoly. PTT does plan, however, to reduce its ownership of SIP from 80.5 percent to 51 percent over the next three years, selling shares to the private sector and using the revenues to upgrade equipment. Because most members of parliament support a strong state monopoly, they will monitor closely PTT's plan and may propose legislation to block the sales. Efforts to privatize other companies occasionally have been delayed by heated parliamentary debate and by ministers maneuvering to block the sales. Moreover we expect more nationalistic members of parliament would protest any foreign purchases of SIP stock. [REDACTED]

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Although the Italian government says it is more receptive to deregulation of the equipment and value-added network services sectors, its restructuring plan does not call for reducing trade barriers in these fields. PTT Minister Gava denies that the equipment sector is closed to competition, citing as evidence the 25- to 30-percent share of the equipment market held by US firms. US companies have obtained their market share, however, primarily through establishment of manufacturing subsidiaries in Italy or through joint ventures with Italian firms. [REDACTED]

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At present, less than 13 percent of Italy's total telecommunication needs are imported -- primarily from West

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Germany, the United States, and Japan -- although in certain equipment fields imports are much more significant. For example, imports accounted for 76 percent of the test equipment market and 72 percent of the video/audio market. The United States supplied about 11 percent of Italy's telecommunications imports in 1984. This relatively low level of US imports is partly due to import duties levied on equipment from non-EC countries -- although no quotas, foreign exchange restrictions, or prior deposits on telecommunications imports are applied. Import duties on US equipment can be as high as 12 percent, with the average about 7 percent. [REDACTED]

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Although PTT has guaranteed Italtel/Telettra/GTE 65 percent of the market, no formal "Buy Italian" policy exists. Nonetheless, PTT often gives preference to domestic manufacturers in its equipment purchasing decisions, and most of the major foreign manufacturers, therefore, have established subsidiaries in Italy. The market for value-added services is relatively new in Italy, but we suspect the government will tend to erect more barriers as the market develops. Rome fears measures that would limit Italian access to the US market, however, and may back down if faced with US threats of retaliatory measures. [REDACTED]

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Rome believes that one way of stimulating its telecommunications producers is to create an EC-wide market in which Italian companies can freely compete. This would allow European firms to take advantage of economies in production arising from larger markets and enable them to compete on a firmer footing with US and Japanese firms. To this end, Rome is encouraging Italian firms to pursue joint ventures with other West European firms -- such as Italtel's agreement with Siemens, CIT-Alcatel, and Plessey -- to develop a fully integrated digital switching system for international calls because it believes such cooperation will lead automatically to the partial deregulation of the European market. Italy calculates that these agreements would promote increased standardization of equipment and help create a more unified European market. For the same reasons, Italy usually cooperates with the recommendations of the European Conference of Postal and Telecommunications Authorities (CEPT) and adopts its equipment standards for domestic use. Although apparently willing to risk greater West European penetration of the Italian market in order to secure a broader European market for Italian firms, Rome does not want the wholesale deregulation of the EC market that would also let in US and Japanese competition. [REDACTED]

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Major Firms in the Italian Telecommunications Industry

State-owned through the IRI/STET Group

ASST - Azienda di Stato per i Servizi Telefonici -- state-owned domestic long-distance telephone company; also provides connections with other European and Mediterranean countries.

SIP - Societa Italiana per L'Esercizio Telefonico -- handles most of Italy's internal telephone traffic, all local calls, and some trunk services; manages contacts with telephone subscribers.

Italcable - provides international telephone and telex services not handled by ASST (ie. non-European or Mediterranean).

Italtel - manufactures telecommunications equipment, including switching equipment, telephones, telematic equipment, etc.

Selenia Elsag Group - manufactures telecommunications equipment; Selenia Spazio is involved in satellite and earth station construction.

Sirti - Societa Italiana Reti Telefoniche Interurbane -- installs and maintains telecommunications systems; has installed 80 percent of Italy's long-distance communications equipment and has maintained the entire communications network since 1929.

Private Sector

Telletra - a Fiat subsidiary manufactures telecommunications equipment; is participating in a joint venture with Italtel and GTE to manufacture second generation digital switching components.

Olivetti - 25 percent owned by AT&T; primarily involved in informatics but increasingly competitive in the telecommunications industry.

Foreign subsidiaries in Italy include ITT, GTE, and Ericsson (Sweden).

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